



# Washington State Auditor's Office

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## Financial Statements Audit Report **Public Utility District No. 1 of Jefferson County**

**For the period January 1, 2014 through December 31, 2014**

**Published August 22, 2016**

**Report No. 1017248**





## Washington State Auditor's Office

August 22, 2016

Board of Commissioners  
Public Utility District No. 1 of Jefferson County  
Port Hadlock, Washington

### Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Jefferson County's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA



















OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations, states in part:

Section 200, Audit requirements: (a) Audit required. Non-federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part. Guidance on determining Federal awards expended is provided in §\_\_.205.

Section 300, Auditee responsibilities, states in part: The auditee shall: (e) Ensure that the audits required by this part are properly performed and submitted when due.

Section 320, Report Submission, states in part: (a) General. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit . . . .

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**Public Utility District No. 1 of Jefferson County  
January 1, 2014 through December 31, 2014**

Board of Commissioners  
Public Utility District No. 1 of Jefferson County  
Port Hadlock, Washington

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Jefferson County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 16, 2016. Our report disclaims an opinion on such financial statements because we were not able to obtain financial statements supporting the financial activities of the District for the year ended December 31, 2014, nor were we able to satisfy ourselves as to those financial activities by other auditing procedures.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In connection with our engagement to audit the financial statements of the District, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-001 to be material weaknesses.

## **COMPLIANCE AND OTHER MATTERS**

In connection with our engagement to audit the financial statements of the District, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, if the scope of our work had been sufficient to enable us to express an opinion on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

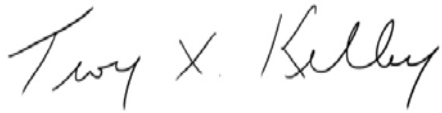
## **DISTRICT'S RESPONSE TO FINDINGS**

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized 'T' and 'K'.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

August 16, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Public Utility District No. 1 of Jefferson County January 1, 2014 through December 31, 2014**

Board of Commissioners  
Public Utility District No. 1 of Jefferson County  
Port Hadlock, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We were engaged to audit the financial statements of Public Utility District No. 1 of Jefferson County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion.

#### **Basis for Disclaimer of Opinion**

The District did not provide accurate financial statements or supporting schedules for the period ended December 31, 2014. Although representations of the District's financial activities were available for audit our procedures identified material misstatements. Additionally, bank reconciliations were not performed to allow us to evaluate the fair statement of cash balances

presented in the financial statements. Further, the District was unable to provide sufficient support for more than \$4.6 million of adjusting journal entries made in its accounting system or determine the cause of significant variances between the bank activity and accounting records. Given the lack of controls over the general ledger and adjusting journal entries, we were unable to determine whether transactions were accurately reflected in the financial system, or the financial statements themselves.

### **Disclaimer of Opinion**

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements. The statements are not included in our report.

### **Other Matters Regarding Disclaimer of Opinion**

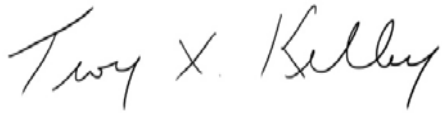
As the statutory auditor of all public accounts in the state of Washington we are precluded from withdrawing from the audit engagement, regardless of the matters described in the Basis for Disclaimer of Opinion paragraph.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That



report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized "X" in the middle.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

August 16, 2016

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED  
UNDER OMB CIRCULAR A-133**

**Public Utility District No. 1 of Jefferson County  
January 1, 2014 through December 31, 2014**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Public Utility District No. 1 of Jefferson County.

|  |   |
|--|---|
| <b>Finding ref number:</b><br>2014-001   | <b>Finding caption:</b><br>The District's internal controls over accounting and financial statement preparation are inadequate to ensure timely and accurate financial reporting. |
| <b>Name, address, and telephone of auditee contact person:</b><br>Jim Parker<br>310 Four Corners Road<br>Port Townsend, WA 98368<br>(360) 385-8340   |   |
| <b>Corrective action the auditee plans to take in response to the finding:</b><br><i>The PUD is integrating and implementing new accounting and billing software with improved control measures to provide for better financial accountability and reporting. The PUD is hiring and contracting with needed skilled individuals and is and will continue training appropriate PUD employees to ensure that accurate and supported financial statements are completed in a timely and detailed manner. Improved controls will be developed to ensure secondary review of District activities and financial reporting requirements is being done; the timely submittal of statements and schedules; accurate records are maintained; appropriate cash balance and activity reconciling are performed; and that journal entries are performed timely, are adequately supported and are properly reviewed and authorized. Capital assets are being set up in the new accounting software to allow for proper tracking and so that depreciation can be accurately calculated.</i> |   |
| <b>Anticipated date to complete the corrective action:</b> January 2017  |   |

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

| <b>Contact information for the State Auditor's Office</b> |  |
|---|--|
| <b>Public Records requests</b>                            | <a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a> |
| <b>Main telephone</b>                                     | (360) 902-0370   |
| <b>Toll-free Citizen Hotline</b>                          | (866) 902-3900   |
| <b>Website</b>  | <a href="http://www.sao.wa.gov">www.sao.wa.gov</a>                     |